

Prince
Resource
CORPORATION

AN EMERGING OIL & GAS PRODUCER

1995

Annual Report

CORPORATE PROFILE

Prince Resource Corporation is a growth oriented junior resource company engaged in the exploration and development of oil and gas properties in Western Canada. The Company's common shares are listed for trading on the Alberta Stock Exchange under the trading symbol "PNR".

ANNUAL MEETING

The annual meeting of the shareholders of Prince Resource Corporation will be held at the 400 Club, 410 - 4th Avenue S.W., Calgary, Alberta on Thursday, September 14, 1995 at 3:00 p.m.

FINANCIAL HIGHLIGHTS

Prince Resource Corporation increased capital assets to \$1,445,947 and total Share Capital by 87% to \$2,187,103 in 1995. Gross revenue increased 2379% to \$167,693 with resulting increased cash flow to \$70,222. The company had a cash position of \$477,632 at year end and no long term debt.

OPERATIONS

During 1995 fiscal year Prince Resource Corporation participated in 6 exploratory wells resulting in 2 new oil pool discoveries, 1 potential new pool gas discovery, 2 potential new oil pool discoveries and one water disposal well when operations were suspended for spring breakup.

This program, as outlined herein in each individual property, has set up locations for the drilling of an additional 9 development wells. Prince has earned working interests in enough land to potentially drill a further 11 wells.

Prince has achieved a fiscal 1995 exit rate of 100 BOE per day production, before spring breakup.

FUTURE PLANS

With current development drilling the company is targeting a fiscal 1996 exit rate to exceed 350 BOE per day. It is the philosophy of the company to be primarily exploration orientated to achieve compound growth rates that will result in asset appreciation exceeding that of less aggressive companies. This approach results in both increased risk levels and higher rates of return. To offset this risk the company will attempt to maintain a debt free balance sheet and minimal long term commitments.



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REPORT TO THE SHAREHOLDERS

The Board of Directors is pleased to present the Company's second Annual Report and Audited Financial Statements for the year ended March 31, 1995.

Since closing Prince's major transaction on April 23, 1994, the Company has been actively pursuing oil and gas exploration opportunities in an effort to build the company from four pillars:

- Low overheads with more spent on exploration
- Joint Ventures with strong established partners
- Significant participating interest
- Core properties with large land positions

With these criteria the company formed four joint ventures in very different exploration areas. The primary objective is oil production and with a secondary goal of gas development.

The company intends to consolidate it's operations in the areas that are currently being developed until they have reached their productive potential.

In the ensuing year the Company is intent upon maintaining it's commitment to the four pillars by:

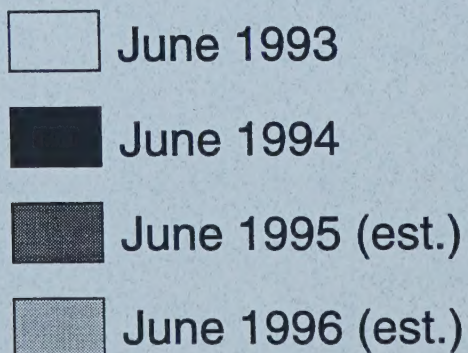
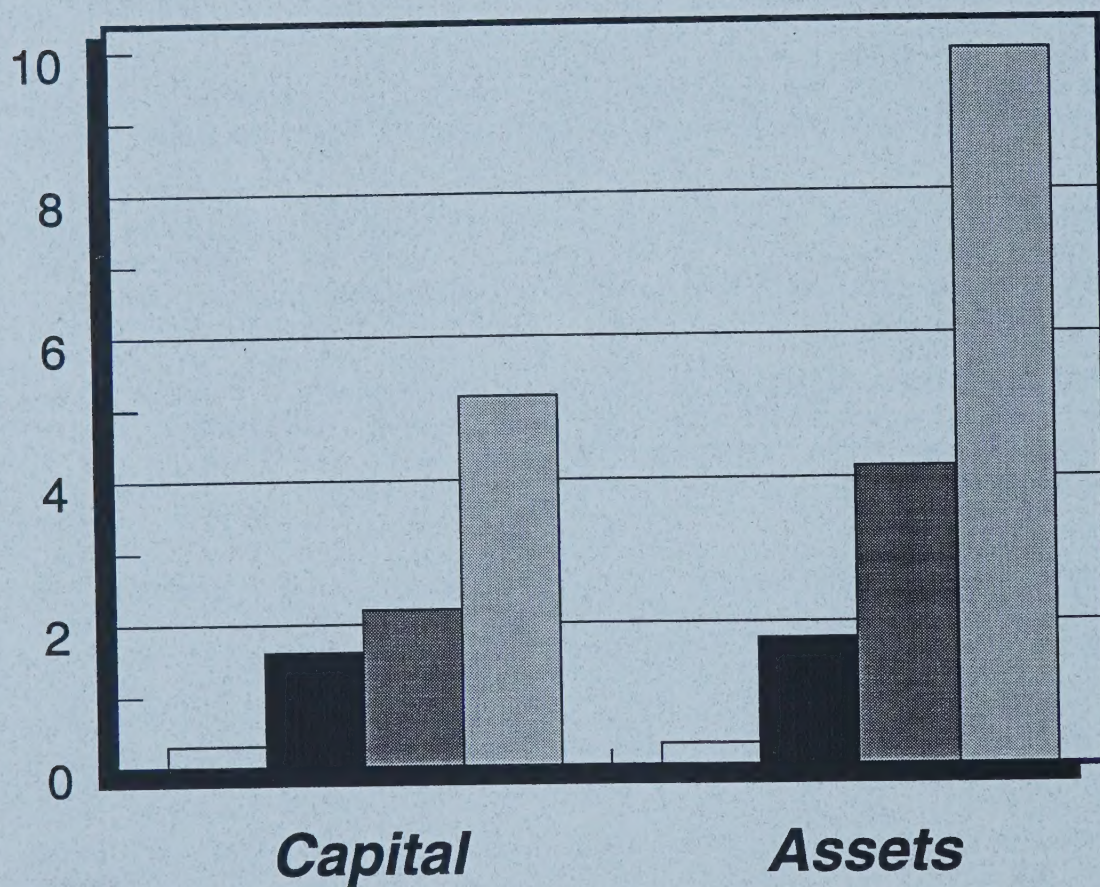
- Increasing cash flow
- Development drilling on company lands
- Maintaining low overhead costs

On Behalf of the Board of Directors

A handwritten signature in dark ink, appearing to read 'Bruce D. Lyle', is written over a horizontal line.

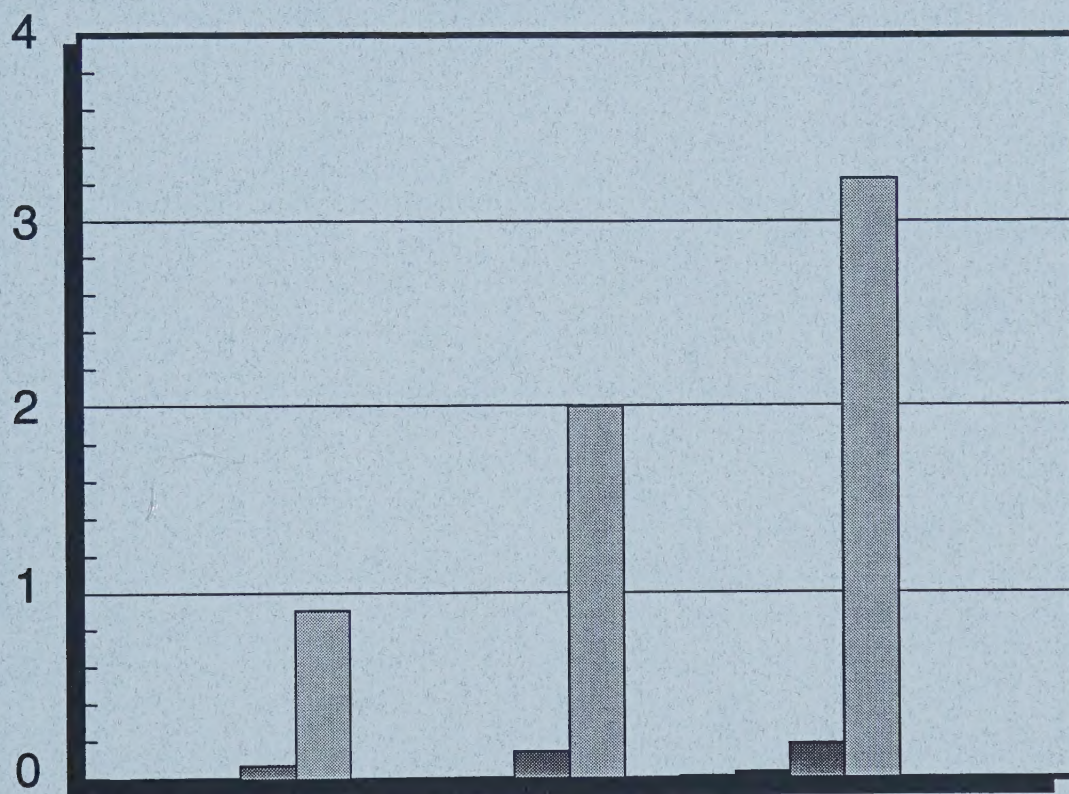
Bruce D. Lyle
President and Chief Financial Officer
August 10, 1995

(\$ Millions)

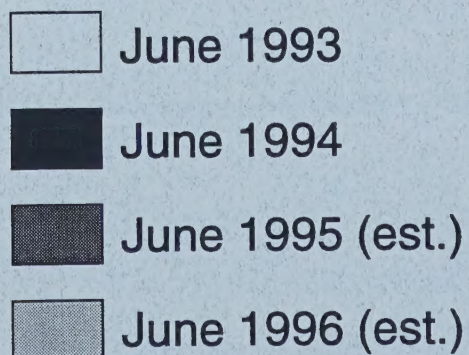


Earnings / Cash Flow / Revenue

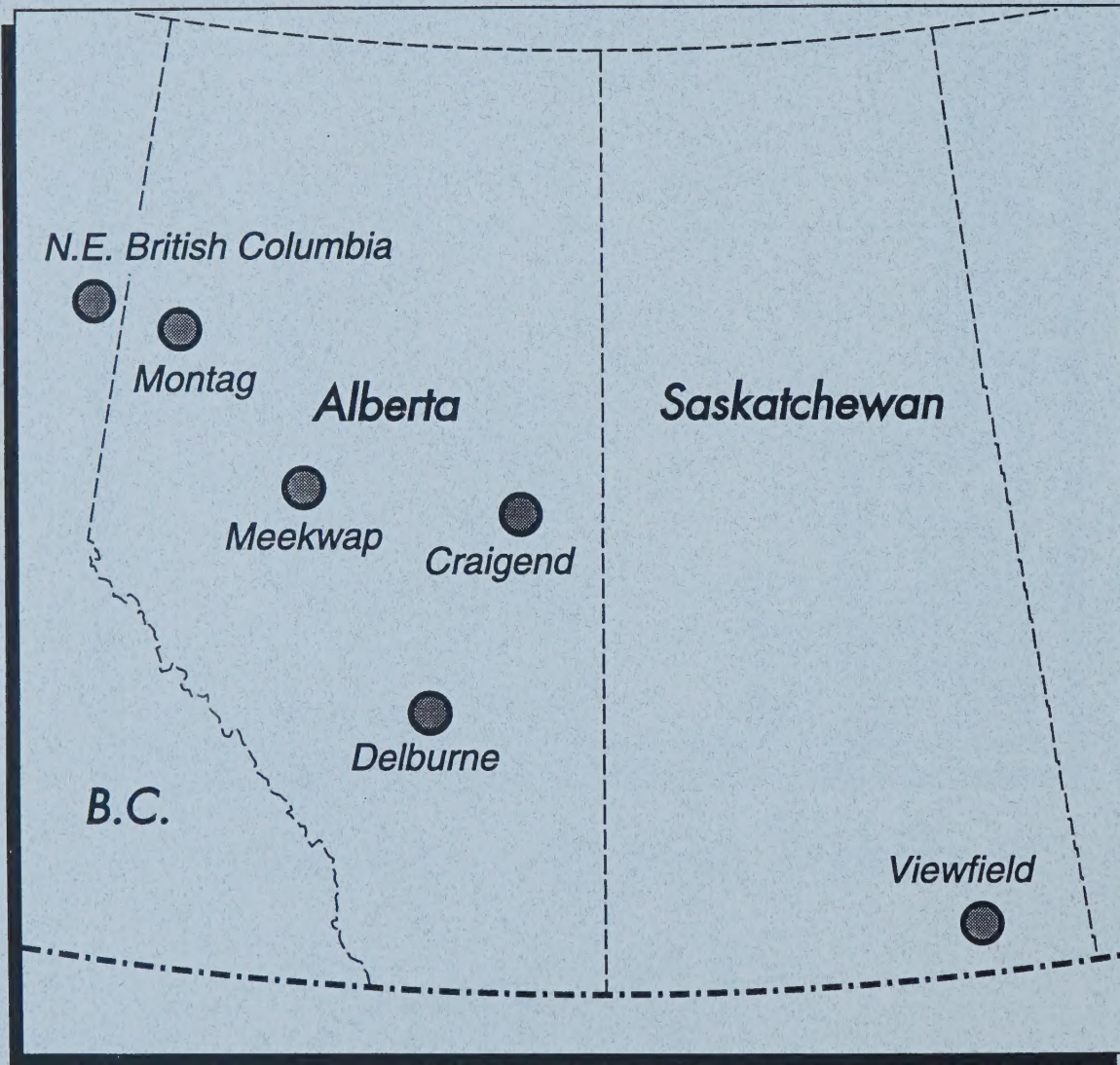
(\$ Millions)

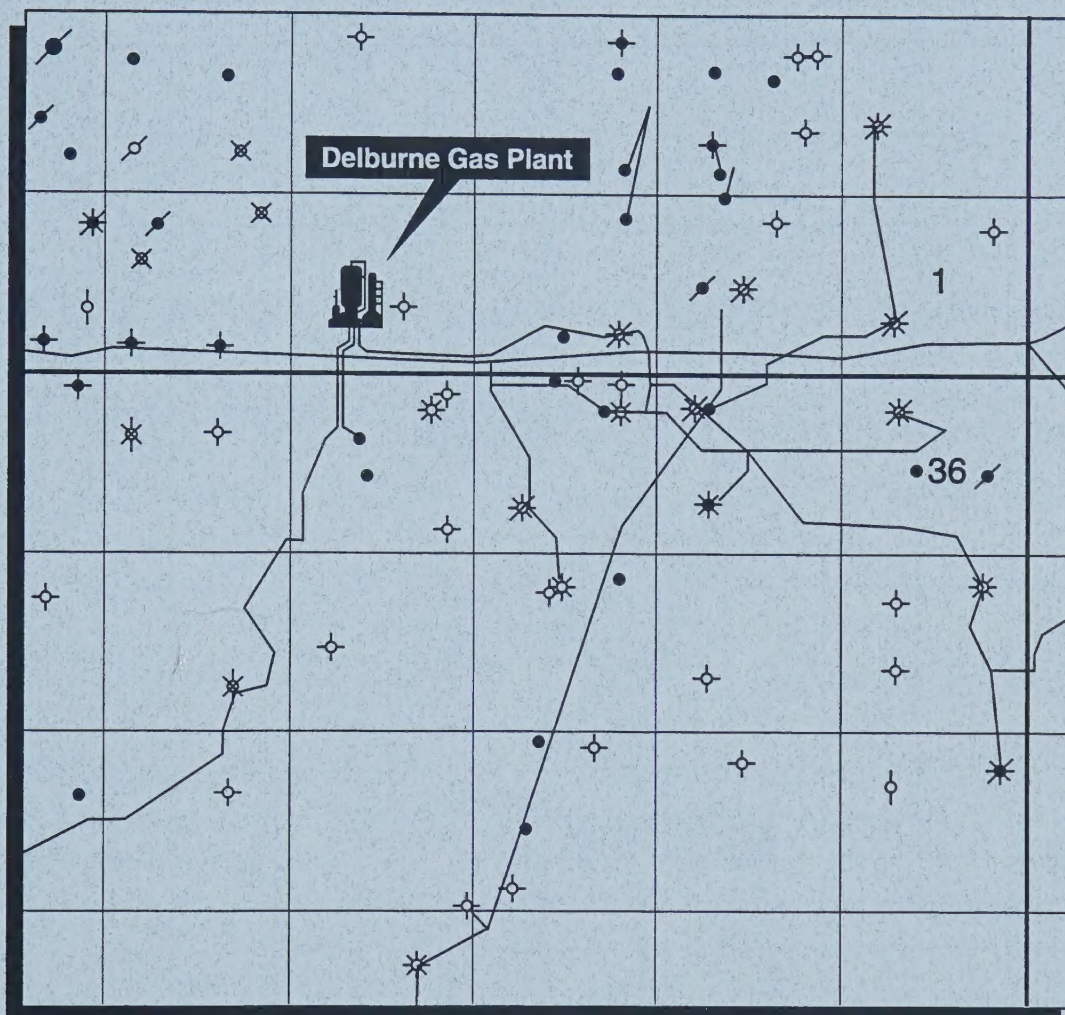


Earnings Cash Flow Revenue



Western Canada Properties

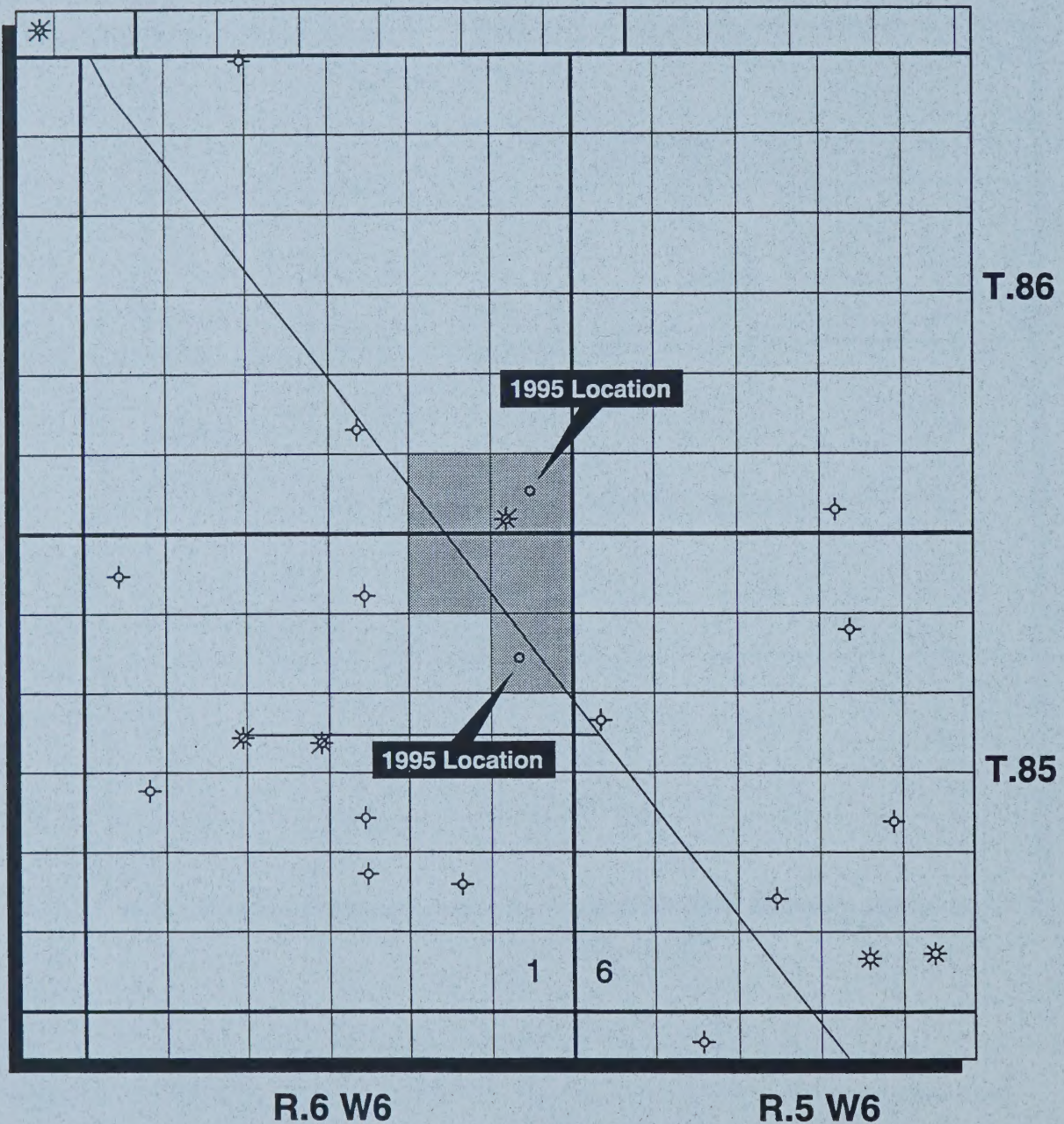




R.24 W4

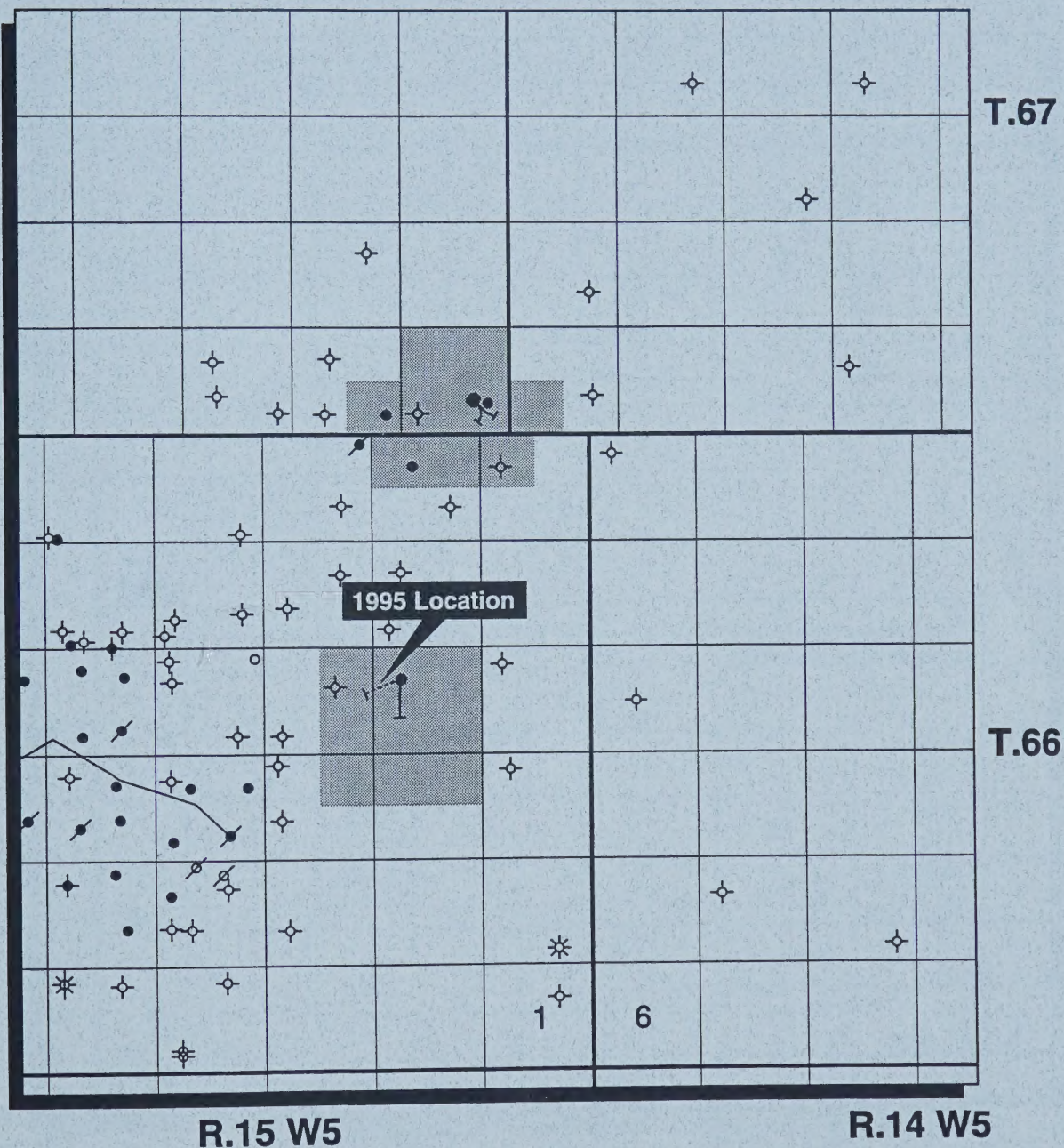
T.37

- *Delburne Gas Plant & Gathering System*
- *5% Working Interest*
- *System capable of processing 17 MMCF/d*
- *Steady cash flow of \$100,000 / year*
- *Refurbished in 1st quarter 1995*



- 3200 Gross Acres with a 16% Net W.I.
- Multi-zone Gas and Oil Prospect
- First well encountered gas
- Two wells are planned for summer 1995

Meekwap Property

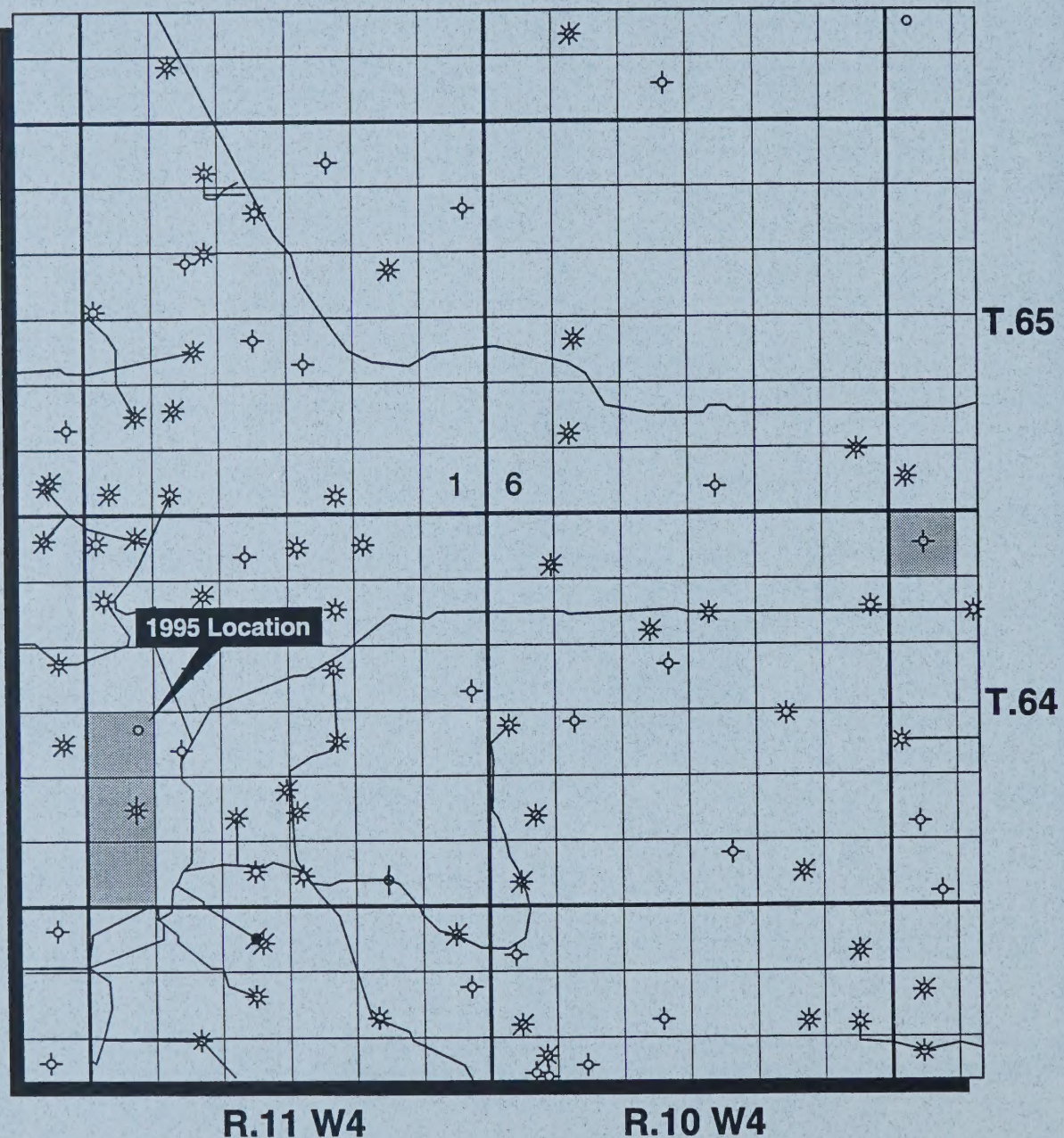


R.15 W5

R.14 W5

- 2720 Gross Acres with an average 12% W.I.
- Drilled 2 horizontal wells
- Completed 1 Nisku oil well at 400 BBLS/d
- Other well suspended pending completion
- Built infrastructure for 1600 BBLS/d
- Recomplete two suspended vertical wells
- Planned 1 additional well for 1995
- Locations for development drilling

Craigend / Sugden Property



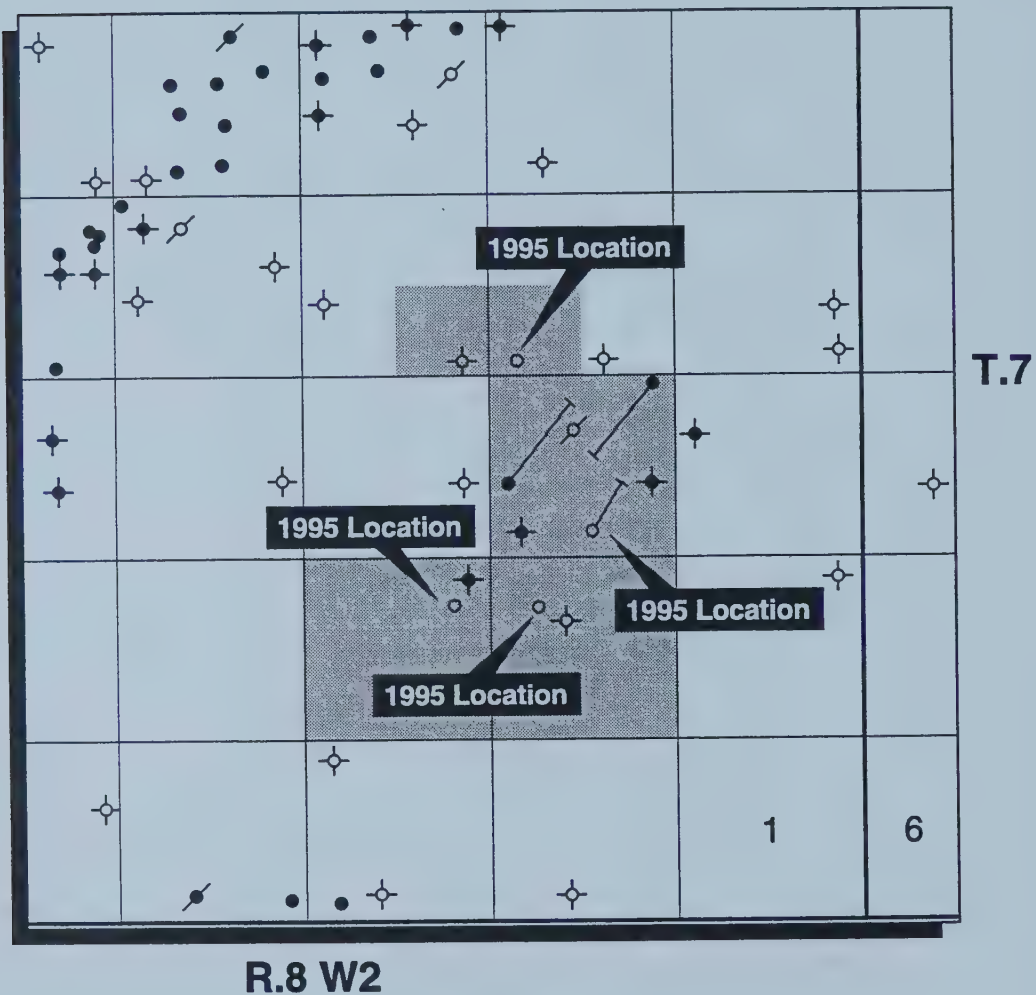
- 2560 Gross acres with a 37% net W.I.
- Natural Gas prospect with close facilities
- First well to be drilled in the summer 1995
- Expected tie-in for winter deliveries



R.15 W6

- 1280 Gross Acres, Net 10%
- Development drilling prospect
- 1 well to be drilled for summer 1995
- Offsetting large gas pool

Viewfield, Sask. Property



- *2240 Gross Acres, 20% W.I.*
- *New pool Oil Discovery*
- *Water disposal and Production Facilities*
- *Locations for 6 horizontal wells*

PRINCE RESOURCE CORPORATION
FINANCIAL STATEMENTS
MARCH 31, 1995

AUDITORS' REPORT

To the Shareholders
Prince Resource Corporation

We have audited the balance sheet of Prince Resource Corporation as at March 31, 1995 and 1994 and the statements of loss and deficit and cash flow for the year ended March 31, 1995 and for the period from commencement of operations, April 23, 1993 to March 31, 1994. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 1995 and 1994 and the results of its operations and cash flow for the year and the period then ended in accordance with generally accepted accounting principles.

Collins Banow

CHARTERED ACCOUNTANTS

Calgary, Alberta
June 14, 1995

PRINCE RESOURCE CORPORATION

(Incorporated under the laws of Alberta)

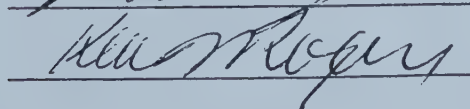
BALANCE SHEET

MARCH 31, 1995

	1995	1994
Assets		
Current assets		
Cash and short-term deposits	\$ 477,632	\$ 1,168,108
Accounts receivable	263,524	2,601
	741,156	1,170,709
Capital assets (note 3)	1,445,947	-
	\$ 2,187,103	\$ 1,170,709
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 149,491	\$ 4,280
Shareholders' Equity		
Share capital (note 4)	2,057,090	1,171,624
Deficit	(19,478)	(5,195)
	2,037,612	1,166,429
	\$ 2,187,103	\$ 1,170,709

Approved on behalf of the Board,

 , Director

 , Director

PRINCE RESOURCE CORPORATION
STATEMENT OF LOSS AND DEFICIT
YEAR ENDED MARCH 31, 1995

*(with comparative figures for the period from commencement of operations,
April 23, 1993 to March 31, 1994)*

	1995	1994
Revenue		
Gas processing fees	\$ 61,648	\$ -
Oil and gas revenue	50,160	-
Alberta royalty tax credit	2,129	-
Interest income	53,756	6,760
	167,693	6,760
Expenses		
Operating	20,297	-
Royalties	6,343	-
General and administrative	70,831	11,955
Depletion and depreciation	62,729	-
	160,200	11,955
Income (loss) before income taxes	7,493	(5,195)
Income taxes (note 5)	21,776	-
Net loss	(14,283)	(5,195)
Deficit, beginning of period	(5,195)	-
Deficit, end of period	\$ (19,478)	\$ (5,195)
Net loss per share	\$ (0.002)	\$ (0.002)

PRINCE RESOURCE CORPORATION
STATEMENT OF CASH FLOW
YEAR ENDED MARCH 31, 1995

*(with comparative figures for the period from commencement of operations,
April 23, 1993 to March 31, 1994)*

	1995	1994
Operating activities		
Net loss	\$ (14,283)	\$ (5,195)
Add items not affecting cash		
Depletion and depreciation	62,729	-
Income taxes	21,776	-
Cash flow from operations	70,222	(5,195)
Net change in non-cash working capital balances	(5,912)	1,679
Cash from operations	64,310	(3,516)
Investing activities		
Acquisition of capital assets	(1,508,676)	-
Net change in non-cash working capital balances	(109,800)	-
Cash used in investing activities	(1,618,476)	-
Financing activities		
Issuance of share capital	896,016	1,278,241
Share issuance costs	(32,326)	(106,617)
Cash provided by financing activities	863,690	1,171,624
Cash inflow (outflow)	(690,476)	1,168,108
Cash and short-term deposits, beginning of period	1,168,108	-
Cash and short-term deposits, end of period	\$ 477,632	\$ 1,168,108

PRINCE RESOURCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1995

1. Company activities

The company's activities are the exploration for and development of oil and gas properties in Canada.

2. Significant accounting policies

The financial statements of the company are stated in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of the company, conform in all material respects with International Accounting Standards. The significant accounting policies are summarized below:

(a) Exploration and development costs

The company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves in Canada are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation.

Costs capitalized are depleted and depreciated using the unit-of-production method based on estimated gross proven oil and natural gas reserves as determined by independent and company engineers. For purposes of the calculation, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

In applying the full cost method, the company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation for each cost centre from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, estimated future removal and site restoration costs, financing costs and income taxes.

Costs to acquire significant proved reserves are excluded from the ceiling test for a period of 24 months following the acquisition, provided any excess of costs over future net revenues is not considered to represent a permanent impairment in the ultimate recoverable amount.

PRINCE RESOURCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1995

(b) Depreciation

The gas plant is depreciated using the straight-line method over its estimated useful life of 15 years. Other equipment is depreciated using the declining balance method at rates varying from 20% to 30% per annum.

(c) Joint venture accounting

Substantially all of the company's exploration and production activities are conducted jointly with others and accordingly these financial statements reflect only the company's proportionate interest in such activities.

(d) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration, development and land expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the company.

The value assigned to the properties upon which subscribers' funds were expended is the actual dollar amount of the expenditures with share capital being recorded based on cash received.

3. Capital assets

	Net Book Value			
	Cost	Accumulated Depletion and Depreciation	1995	1994
Petroleum and natural gas properties including exploration and development thereon	\$ 992,783	\$ 27,786	\$ 964,997	\$ -
Lease and well equipment	82,385	3,954	78,431	-
Gas plant	423,037	28,202	394,835	-
Other equipment	10,471	2,787	7,684	-
	\$ 1,508,676	\$ 62,729	\$ 1,445,947	\$ -

PRINCE RESOURCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1995

Capital assets having a net book value of \$977,317 (1994 - nil) for accounting purposes have a nil cost for income tax purposes.

Future removal and site restoration costs are estimated in aggregate to be \$18,000. Earnings do not include a charge for such costs as amounts are not material.

Undeveloped property not subject to depletion amounted to \$413,911 (1994 - nil).

4. Share capital

(a) Authorized

Unlimited common voting shares

Unlimited preferred shares

(b) Issued - common shares

	Number	Stated Value
Issued for cash	1,600,000	\$ 56,000
Issued for cash pursuant to a prospectus dated June 21, 1993	2,500,000	250,000
Stock options exercised (note 4(c))	100,000	10,000
Total issued	4,200,000	316,000
Obligation to issue common shares (note 4(d))	3,207,470	962,241
Balance, March 31, 1994	7,407,470	1,278,241
Issued for cash pursuant to a private placement (note 4(d))	133,363	40,000
Issued upon acquisition of gas plant (note 4(e))	1,250,000	350,000
Stock options exercised (note 4(c))	150,000	15,000
Issued for cash pursuant to subscription agreements (note 4(f))	818,360	491,016
Balance, March 31, 1995	9,759,193	2,174,257
Less: Share issuance costs		
Balance, March 31, 1994		106,617
Additions		32,326
Tax benefit from deducting share issuance costs		(21,776)
Balance, March 31, 1995		117,167
		\$ 2,057,090

PRINCE RESOURCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1995

- (c) Pursuant to the prospectus dated June 21, 1993, the company entered into a stock option agreement with Rogers & Partners Securities Inc. under which 250,000 common shares have been reserved for issuance. The options may be exercised at any time at a price of \$0.10 per share until expiry on August 10, 1994. At March 31, 1994, 100,000 options had been exercised. On May 18, 1994, the remaining 150,000 options were exercised.
- (d) Pursuant to a private placement offering memorandum dated February 10, 1994, the company committed to issue 3,340,833 flow-through common shares at \$0.30 per share for aggregate proceeds of \$1,002,241. These shares were issued on April 6, 1994.
- (e) On April 25, 1994, the company purchased a 5% working interest in the Delburne Gas Plant and Gathering System. As consideration, the company issued 1,250,000 common shares at \$0.28 per share and 625,000 share purchase warrants exercisable at any time at a price of \$0.42 per share until expiry on April 25, 1995. Subsequent to year end, the 625,000 share purchase warrants were not exercised and they expired.
- (f) During the year, the company entered into subscription agreements whereby the company issued 818,360 common shares for total consideration of \$491,016 and agreed to incur and renounce to subscribers, for income tax purposes, \$491,016 of exploration and development expenditures.
- (g) As at March 31, 1995, the following options to purchase common shares were outstanding:

Number	Exercise Price per Share	Expiry Date
410,000	\$ 0.10	April 8, 1998
205,000	0.35	April 25, 1999

Subsequent to year end, 410,000 options were exercised and common shares were issued at \$0.10 per share. On May 9, 1995, 490,000 options were granted to certain officers and directors of the company to purchase 490,000 common shares at \$0.25 per share until expiry on May 9, 2000.

- (h) As at March 31, 1995, 1,737,000 common shares having a stated value of \$69,700 remain in escrow. The Escrow Agreement provides that the escrowed shares may not be traded, released, transferred, or dealt with in any manner without the consent of the Alberta Securities Commission. One third of these shares will be released from escrow on May 5, 1995, 1996 and 1997.
- (i) Net loss per share is calculated using the weighted average number of common shares of 8,883,414 (1994 - 3,039,985) outstanding during the period.

PRINCE RESOURCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1995

5. Income taxes

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 44.34% to income (loss) before income taxes. The difference results from the following:

	1995	1994
Expected income taxes (recovery)	\$ 3,322	\$ (2,304)
Increase (decrease) resulting from:		
Non-deductible crown payments net of Alberta royalty tax credit	940	-
Depletion and depreciation on non-tax based assets	21,849	-
Reduction resulting from utilization of losses not previously recognized	(11,722)	-
Deferred tax benefit not recognized	-	2,268
Other	7,387	36
	<u>\$ 21,776</u>	<u>\$ -</u>

For income tax purposes, the current income tax expense is offset by the benefit from deducting share issuance costs.

The income tax benefit from share issuance costs is deducted from share issuance costs when realized. Share issuance costs available for deduction against future taxable income, for which no benefit has been recognized in the financial statements total \$89,832 (March 31, 1994 - \$85,294).

6. Related party transactions

General and administrative expenses include consulting expenses in the amount of \$33,333 (1994 - nil) paid to an officer of the company for services rendered.

PRINCE RESOURCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1995

7. Subsequent events

Subsequent to year end, the company entered into a lease agreement for office space for three years. Lease payments are \$10,737 per annum until expiry on August 31, 1998.

PRINCE RESOURCE CORPORATION

CORPORATE INFORMATION

Corporate Head Office

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Calgary, Alberta, Canada T2P 3P8
Telephone: (403) 262-4606
Fax: (403) 261-8614

Board of Directors and Officers

Bruce D. Lyle
President and Chief Financial Officer

Ken J. Rogers
Corporate Secretary

Jack Abrams
Geologist

Adrian Lomas
Engineer

Auditors

Collins Barrow
Chartered Accountants
Calgary, Alberta

Bankers

Canadian Imperial Bank of Commerce
Calgary, Alberta

Registrar

Montreal Trust Company of Canada
Calgary, Alberta

Solicitors

Ken J. Rogers, Legal Counsel
Calgary, Alberta

Stock Exchange Listing

The Alberta Stock Exchange
Trading Symbol: "PNR"

Year High and Low

\$0.55 \$0.20